



Energy Northwest, WA

Contacts

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Moody's Rating

Issue	Rating
Nuclear Project 2 Columbia Generation Station Subordinate Lien Electric Revenue Refunding Bonds, Series 2001	Aa1
Sale Amount	\$128,065,000
Expected Sale Date	03/06/01
Rating Description	Nuclear Project 2 Columbia Generating Station Subordinate Lien Electric Revenue Refunding Bonds, Seri
Nuclear Project 1 Subordinate Lien Revenue Bonds, Series 2000A	Aa1
Sale Amount	\$130,200,000
Expected Sale Date	03/06/01
Rating Description	Nuclear Project 1 Subordinate Lien Revenue Bonds, Series 2001A
Nuclear Project 3 Subordinate Lien Electric Revenue Refunding Bonds, Series 2001	Aa1
Sale Amount	\$184,220,000
Expected Sale Date	03/06/01
Rating Description	Nuclear Project 3 Subordinate Lien Electric Revenue Refunding Bonds, Series 2001

MOODY'S ASSIGNS Aa1 CREDIT RATING TO BPA-BACKED ENERGY NORTHWEST REVENUE BONDS

KEY TO CREDIT RATING IS CREDIT STRENGTH OF BPA NET BILLING AGREEMENT

Opinion

Moody's Investors Service has assigned the credit rating of Aa1 to the Energy Northwest revenue bonds in conjunction with a sale of \$400 million of refunding bonds expected the

week of March 6. Moody's has also affirmed the Aa1 credit rating on senior lien revenue bonds that had been issued by the Washington Public Power Supply System, now operating as Energy Northwest. The amount of outstanding Project 1, 2 and 3 bonds as of January 1, 2001 was \$6,071,230,000. The credit quality of the current offering and outstanding bonds reflects the legal strength of the net billing agreements with the Bonneville Power Administration (BPA) which provides the underlying security for the bonds, the importance of BPA's role as the federal power marketing agency in the Pacific Northwest region and its ownership of 75% of the region's bulk transmission capacity as well as the fundamental credit strengths of BPA's financial management, cost structure and federal relationship. Moody's does not draw a distinction between the currently offered prior lien bonds and the outstanding Energy Northwest senior lien bonds due to the strong credit standing of BPA, the fact that the senior lien is closed, the lack of priority of lien in the net billing agreement payments and minimal difference in security elements between the two liens. Moody's has assigned the Aa1 credit rating after evaluating the following considerations:

CREDIT RATING REFLECTS STRONG BOND SECURITY FEATURES INCLUDING NET BILLING AGREEMENTS WITH BONNEVILLE POWER ADMINISTRATION, A U. S. GOVERNMENT AGENCY , WHICH HAVE BEEN EVENT AND COURT TESTED.

Moody's believes that the fundamental credit strength of the Energy Northwest revenue bonds rests with the BPA-backed net billing agreements between project participants and BPA. The agreements have withstood more than 20 years of stressful circumstances such as challenges to the Project 1, 2 and 3 bonds brought on by the Projects 4 and 5 bond default (Projects 4 and 5 bonds were not backed by BPA net billing agreements) and, most recently, the termination of Projects 1 and 3 which were partially constructed nuclear units financed by the Project 1 and 3 bonds. Despite the project terminations, under the net billing agreements, the obligation to meet debt service payments on the bonds remains in effect until all the bonds are retired.

BPA is one of four regional federal power marketing agencies within the U.S. Department of Energy. BPA is required by federal law to meet certain energy requirements in the Northwest region, to implement conservation measures and provide transfusion services. The net billing agreements obligate project participants, consisting of numerous public utility districts and municipal and electric cooperative utilities, to pay Energy Northwest their proportionate share of the project's annual costs, including debt service in accordance with each participant's purchase of project capability. BPA, in turn, is obligated to pay the participants identical amounts by reducing amounts due to BPA for power and services purchased from BPA by the participants under BPA-participant power sales agreements. BPA has further agreed that in the event of any insufficient payment by a participant, BPA would pay in cash directly to Energy Northwest the amount due in a timely manner.

The U. S. Court of Appeals affirmed the legal authority of all participants to enter into the net-billing agreements; the U. S. Supreme Court denied a petition for a writ of certiorari. The obligation of BPA and the participants is in force whether the projects are operable or terminated.

BPA'S STATUS AS AN ENERGY DEPARTMENT LINE AGENCY AND U.S. GOVERNMENT'S IMPLIED SUPPORT OF ENERGY NORTHWEST/WPPSS REVENUE BONDS ARE KEY TO CREDIT RATING.

Moody's believes that the U.S. Government's implied support of the Energy Northwest revenue bonds through BPA is a key credit factor. While the Energy Northwest revenue bonds are not direct U.S. government obligations , the contractual payments by BPA on the the Energy Northwest revenue bonds have implied federal support through BPA. BPA entered into the net billing agreements under its broad contract authority under section 2

(f) of the Bonneville Project Act. The net billing agreements allocate the obligation to meet project costs from Energy Northwest to the participants and then to BPA. BPA's net billing agreement payments are ranked senior to BPA's repayment of U.S. Treasury borrowing. BPA is also required by federal law to defer its annual payment to the Treasury if needed to meet its non-federal debt obligations including the Energy Northwest revenue bond obligations. Moody's believes the well-established record of the net billing agreements, that have been both court-tested and honored despite two of the projects being terminated, is evidence of their strength and BPA's strong support.

BPA's important role and status as an Energy Department line agency strengthens its relationship to the Energy Northwest revenue bonds. Moody's finds credit strength in BPA's ties to the federal government. BPA has direct borrowing authority for \$3.75 billion with the U.S. Treasury, and has repayment flexibility if needed; BPA also has a Fish Cost Contingency Fund. BPA markets electric power from the 29 federally owned hydroelectric facilities constructed on the Columbia and Snake Rivers providing 45% of the electric power in the Pacific Northwest. Power dispatched from the Energy Northwest's Columbia Nuclear Generating Station No.2 represents about 10% of BPA's total energy resources. BPA owns and operates 75% of the bulk electric power transmission, and 80% of the transmission capacity of the Pacific Northwest-Pacific Southwest Intertie. BPA is also responsible for significant regional environmental protection programs as well as for coordinating river operations and treaty responsibilities with Canada. BPA has funded 70% of the fish and wildlife mitigation and recovery efforts in the Columbia Basin. A BPA failure would have far-reaching effect on the region. Moody's believes BPA's importance is attested to by the strong political support it enjoys in Congress and by the numerous federal statutes that have been enacted involving BPA to resolve regional energy issues in the region.

BPA'S STRONG MANAGEMENT MET CHALLENGE OF POSITIONING FOR DEREGULATION, NOW TURNS TO REGIONAL POWER CRISIS.

Moody's credit rating also recognizes that BPA management has demonstrated a capacity to deal with deregulation's major challenges. BPA management for example anticipated a more competitive electricity market and aggressively positioned the organization for electric industry deregulation, while maintaining a strong financial position. BPA did not rely on its access to federal funds, but implemented in the mid 1990s a strategic plan that remained on track through 2001 to position the agency's cost structure for more competitive markets while maintaining strong financial reserves. For example, management trimmed an average \$600 million in expenses from the BPA annual budget out of a 1996-2001 forecasted expenditure base of \$3 billion, including a staff reduction of 20%. BPA was able to lower its wholesale rate to 2.44 cents/kwh, well below the original forecasted rate in the 3 cents/kwh range. The lower BPA cost structure positioned BPA favorably as it began to undertake negotiations for the new power sale contracts that would begin October 1, 2001, for the 2002-2006 period. The success of the BPA strategic plan and the regional recognition of BPA's strengths is evident in the significant increase in the number of customers and their requests to purchase power from BPA for the 2002-2006 period. BPA's total subscription sales of power were 9,082 average megawatts, (11,000 average megawatts requested) which is well above the original rate case estimate of 7,800 average megawatts. The total sales were also well above the 7,100 average megawatts of total firm capability of the federal system. To meet the excess power sales above the federal generation system, BPA must purchase power if there isn't adequate generation.

The Pacific Northwest has faced unprecedented circumstances in 2000-2001 regarding power supplies and costs. The region's hydro-based system is experiencing drought conditions, with water volumes estimated by BPA to be 70% of average. The outlook for the spring and summer 2001 remains uncertain but the cumulative snowpack remains

significantly below normal and projected streamflow conditions have significantly reduced the federal hydro system output. BPA is expected to have to purchase power from the volatile wholesale market to meet a portion of its future load obligations. Meanwhile, the California power crisis combined with the poor hydro conditions has intensified volatility in the regional wholesale power market. BPA anticipates the electric power market to register near-term prices (2001-2003) in the \$200/mwh range.

In Moody's opinion, BPA management has responded to the current crisis with an effective strategy to insure maintenance of its financial health. BPA believes that it could be significantly exposed financially since forecasts indicate water conditions for the next several years could be among the lowest on record, which would then require BPA to purchase on the high cost wholesale market to meet a portion of its load requirements. BPA management has responded with evaluation of various financial strategies to maintain its financial health, a high probability of meeting Treasury payments, to maintain the integrity of the federal 2000 Biological Opinion and to maintain cash reserve levels. BPA management has announced an intention to increase power rates significantly over the next five year period. BPA begins 2001 with strong reserve levels in the \$800 million range and has various cash management tools to help meet its financial requirements in the various worst case scenarios. While the level of the rate increase has not been settled upon, it appears that there is recognition by BPA's customers that a power rate increase is acceptable given the unprecedented circumstances. Many utilities, such as Seattle Light, have already gotten City Council approval for the BPA rate increase to be passed through to customers. As municipal electric utilities with signed power-purchase contracts with BPA begin taking power in October 1, 2001, the cost of that power will be higher. However, despite the significant increases, BPA's prices still remain very competitive with marketplace alternatives. BPA is also looking at various alternatives including new transmission improvements; greater demand-side management; conservation targets; and increased natural gas delivery and storage to support new generation capability in the region.

COLUMBIA GENERATING STATION MAINTAINS SOUND OPERATING RECORD.

The Columbia Generating Station is the only nuclear unit in operation with all the power economically dispatched by BPA. The 1,190 MW generating station has had an improving record, with an average capacity factor in excess of 70% over the past three year period. The plant's value to the BPA power system was increased by the adoption of a 24-month fuel cycle. The unit's cost of power fell to 2.14 cents/kwh in 2000 from 2.69 cents/kwh in 1996. A higher than normal cost of power in 2001 (2.51 cents/kwh) was a refueling outage that prepared the plant for the 24-month refueling cycle. Projected power cost in 2002 reflects the change with the cost of power at 1.98 cents/kwh. Further evidence that the Energy Northwest Columbia Generating Station is meeting management targets is the September 2000 designation by the Institute of Nuclear Power Operations (INPO) of an excellent rating.

Outlook

Moody's believes the credit outlook on the Energy Northwest revenue bonds is stable given the underlying security of the BPA net billing agreements and BPA management's continued efforts to maintain sound financial results, including rate changes to provide adequate financial margins and reserves.

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